

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 EURE-00 SSO-00 NSCE-00 INRE-00 USIE-00

AID-05 CEA-01 CIAE-00 COME-00 EB-07 EA-07 FRB-03

INR-07 IO-13 NEA-10 NSAE-00 OPIC-03 SP-02 TRSE-00

CIEP-01 LAB-04 SIL-01 OMB-01 SS-15 NSC-05 L-03 H-02

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O 241238Z MAY 76

FM USMISSION OECD PARIS

TO SECSTATE WASH DC IMMEDIATE 2141

LIMITED OFFICIAL USE SECTION 01 OF 02 OECD PARIS 15194

PASS: CEA, (MALKIEL), TREASURY (WIDMAN), FRB (LUBITZ)

E.O. 11652: N/A

TAGS: OECD, ECON

SUBJECT: WORKING PARTY 2 OF ECONOMIC POLICY COMMITTEE:
GROWTH SCENARIO TO L980; SUMMARY, POLICY ISSUES AND
CONCLUSIONS. (REF B)

REF: A) OECD PARIS 14552, B) CPE/WP2 (76)6

1. PURSUANT TO WP2 AGREEMENT AT ITS MAY 13-14 MEETING
(SEE REF A) SECRETARIAT HAS CIRCULATED REVISED VERSION
OF CONCLUSIONS SECTION OF REF B TO NATIONAL DELEGATIONS
FOR COMMENT. TEXT OF DOCUMENT FOLLOWS UNDER PARAGRAPH
3 BELOW.

2. ACTION REQUESTED: SECRETARIAT HAS REQUESTED
DELEGATIONS' COMMENTS ON NEW TEXT BY 4:00 PM (PARIS
TIME) TUESDAY, MAY 25. MISSION WOULD APPRECIATE
HAVING WASHINGTON COMMENTS BEFORE THIS DEADLINE.

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3. NEW TEXT IS AS FOLLOWS: QUOTE

CONCLUSIONS

23. THE GROWTH SCENARIO DISCUSSED IN THIS REPORT - WHILE PREFERABLE TO MOST OTHER FEASIBLE ALTERNATIVES WHICH CAN AT PRESENT BE ENVISAGED - LEAVES A NUMBER OF DIFFICULTIES UNSOLVED, HAS IN IT THE GERMS OF AN UNSTABLE SITUATION AND CREATED A SERIES OF PROBLEMS AND CHALLENGES FOR ECONOMIC POLICY. IN THE LIGHT OF THE SECRETARIAT'S ANALYSIS AND OF ITS DISCUSSIONS, THE WORKING PARTY FEELS THAT, AS FAR AS CAN BE DETERMINED IN THE PRESENT STATE OF KNOWLEDGE ABOUT SUPPLY POTENTIAL, THE PRE-CONDITIONS EXIST FOR A SUSTAINED GROWTH OF OUTPUT TO 1980 AND BEYOND, ACCOMPANIED BY UNDESIRABLY HIGH BUT DIMINISHING INFLATIONARY PRESSURES AND UNEMPLOYMENT RATES. HOWEVER, THREE PRINCIPAL PRE-REQUISITES WILL BE NECESSARY FOR SUCH A BALANCED DEVELOPMENT OVER THE NEXT FEW YEARS:-

(I) A SIGNIFICANT AND SUSTAINED REDUCTION IN THE RATE OF PRICE INFLATION IN ALL MEMBER COUNTRIES.

(II) A GRADUAL AND CONTROLLED EXPANSION OF OUTPUT, NOT SO SLOW AS TO INHIBIT THE NECESSARY MEDIUM-TERM REVIVAL IN INVESTMENT ACTIVITY BUT NOT SO RAPID AS TO RESULT IN RENEWED INFLATIONARY PRESSURES.

(III) A CLIMATE OF EXPECTATIONS ABOUT SALES AND PROFITS WHICH WILL STIMULATE BUSINESS FIXED INVESTMENT, PARTICULARLY IN THOSE COUNTRIES WHERE THE CAPITAL STOCK IS INADEQUATE OR ILL-ADAPTED.

24. IT IS CLEAR THAT EXTREMELY SKILFUL USE OF DOMESTIC ECONOMIC POLICIES WILL BE REQUIRED, IN PARTICULAR TO AVOID THE RE-EMERGENCE OF INFLATIONARY EXPECTATIONS AND EXCESSIVE DEMAND PRESSURES, AND TO FACILITATE THE SHIFTS IN RESOURCE USE MADE NECESSARY BY PAST AND LIMITED OFFICIAL USE

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PROSPECTIVE STRUCTURAL CHANGES. CIRCUMSTANCES VARY BETWEEN COUNTRIES, BUT THERE IS A WIDE-SPREAD NEED FOR SHIFTS IN RESOURCE ALLOCATION AWAY FROM CONSUMPTION TOWARDS EITHER OR BOTH OF EXPORTS AND INVESTMENT (PARTICULARLY TO RELIEVE PROSPECTIVE BOTTLENECKS), AND HENCE FOR SOME SHIFT IN INCOME DISTRIBUTION AWAY FROM HOUSEHOLDS AND THE PUBLIC SECTOR TOWARDS CORPORATIONS. THE MAIN POLICY REQUIREMENTS ARE AS FOLLOWS:-

(I) MONETARY POLICY SHOULD BE DESIGNED TO NARROW
THE SCOPE FOR PASSING ON COST INCREASES AS FAR
AS POSSIBLE, WITHOUT INHIBITING THE EXPANSION
OF PRODUCTION, IN ORDER TO REDUCE RATES OF IN-
FLATION WITH LASTING EFFECT.

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(II) FISCAL POLICY SHOULD BE DESIGNED TO REDUCE
THE SIZE OF PRESENT BUDGET DEFICITS PROMPTLY
AS THE BALANCE BETWEEN SAVINGS AND INVESTMENT
IN THE PRIVATE SECTOR SWINGS BACK INTO A MORE
NORMAL RELATIONSHIP.

(III) CONTINUING EFFORTS TO DEVELOP EFFECTIVE PRICE
AND INCOMES POLICIES WILL BE NEEDED IN COUNTRIES
WHERE APPROPRIATE MONETARY AND FISCAL POLICIES
HAVE NOT PROVED SUFFICIENT TO CONTAIN INFLATION

AND ENSURE GROWTH. SUCH POLICIES MAY FORM PART
OF A WIDER PACKAGE COVERING SUCH MATTERS AS
INCOME DISTRIBUTION, TAXATION
AND SOCIAL BENEFITS, LABOUR PARTICIPATION IN
DECISION-MAKING AND/OR PROFIT-SHARING IN
INDUSTRY, AND OTHER ECONOMIC AND SOCIAL POLICIES.
IT MAY ONLY BE THROUGH SUCH A BROAD APPROACH
THAT IT IS POSSIBLE TO REACH A CONSENSUS
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ON THE NEED FOR A DETERMINED BREAK INTO THE
WAGE/PRICE SPIRAL, OR, WHERE APPROPRIATE, ON
THE NEED TO INCREASE PROFITS IN THOSE COUNTRIES
WHERE THERE IS A POTENTIAL CAPITAL SHORTAGE.

(IV) MORE SPECIFIC SELECTIVE POLICIES OF A FISCAL OR
ADMINISTRATIVE NATURE MAY BE NEEDED TO STIMULATE
EMPLOYMENT AND INVESTMENT OR COPE WITH SPECIAL
PROBLEM AREAS IN COUNTRIES SUFFERING FROM PAR-
TICULAR STRUCTURAL, SECTORAL OR REGIONAL DIFFIC-
ULTIES. WITH REGARD TO EMPLOYMENT
AND UNEMPLOYMENT, SUCH ACTION WOULD BE IN LINE
WITH THE RECOMMENDATIONS RECENTLY FORMULATED BY
THE OECD MANPOWER AND SOCIAL AFFAIRS COMMITTEE
MEETING AT MINISTERIAL LEVEL.

25. AT THE INTERNATIONAL LEVEL THE POLICY REQUIREMENTS
ARE AS FOLLOWS:-

(I) CLOSE MONITORING OF - AND TIMELY ACTION TO CON-
TAIN- EXPANSIONARY FORCES GENERATED BY THE FAIRLY
CLOSE SYNCHRONISATION OF THE UPSWING IN THE
MAJOR COUNTRIES, WHICH COULD EASILY PUT UNDUE
PRESSURES ON COMMODITY MARKETS AND BOTTLENECK
SECTORS.

(II) LESS DIVERGENCE IN ECONOMIC PERFORMANCE BETWEEN
MEMBER COUNTRIES - IN TERMS OF GROWTH, INFLATION,
EXTERNAL EQUILIBRIUM AND EXCHANGE RATES - BASED
ON DETERMINED ANTI-INFLATIONARY POLICIES IN THE
WEAKER COUNTRIES BACKED, WHERE APPROPRIATE, BY
MUTUAL SUPPORTING ACTION.

(IV) CONSIDERATION OF THE SITUATION OF THE OECD
DEVELOPING COUNTRIES, SEVERAL OF WHICH FACE A
DIFFICULT PERIOD AHEAD IF DOMESTIC GROWTH IS SLOWED
DOWN BY INFLATION AND BALANCE OF PAYMENTS DIFFIC-
ULTIES AND UNEMPLOYMENT RISES AS A RESULT OF
DEMOGRAPHIC FORCES AND REDUCED EMIGRATION. THE
LONGER-TERM SOLUTION LIES IN A LARGER FLOW OF

CAPITAL TO SOUTHERN EUROPE AND OF TRADE IN THE
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REVERSE DIRECTION. (SUCH CONSIDERATIONS ALSO
APPLY, OF COURSE, TO THE DEVELOPING COUNTRIES
OUTSIDE THE OECD AREA WHOSE PROSPECTS HAVE NOT,

HOWEVER, BEEN CONSIDERED IN THIS REPORT.) END
QUOTE.
TURNER

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: COMMITTEE MEETINGS, MEETING REPORTS, INTERNATIONAL ORGANIZATIONS
Control Number: n/a
Copy: SINGLE
Draft Date: 24 MAY 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: vogelfj
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976OECDP15194
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760201-0039
From: OECD PARIS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760520/aaaaarme.tel
Line Count: 237
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 76 OECD PARIS 14552
Review Action: RELEASED, APPROVED
Review Authority: vogelfj
Review Comment: n/a
Review Content Flags:
Review Date: 20 APR 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <20 APR 2004 by ellisoob>; APPROVED <20 AUG 2004 by vogelfj>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: WORKING PARTY 2 OF ECONOMIC POLICY COMMITTEE: GROWTH SCENARIO TO L980; SUMMARY, POLICY ISSUES AND
TAGS: ECON, OECD
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006